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ORIGIN EA-09

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INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

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APPROVED BY EA - MR. EDMOND

EA/IMS - MR. INGRAHAM

EB/ORF/FSE - MR. RAICHT

EB - MR. KATZ

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FM SECSTATE WASHDC

TO AMEMBASSY JAKARTA

C O N F I D E N T I A L STATE 052790

E.O. 11652: GDS

TAGS:ENRG, EINV, ID

SUBJECT: REVISION OF OIL PRODUCTION-SHARING CONTRACTS

FOR AMBASSADOR FROM EDMOND

REF: JAKARTA 2618

1. EA DEPUTY ASSISTANT SECRETARY EDMOND MET WITH
PRESIDENT COMMONS OF NATOMAS AND VICE PRESIDENT RAVESIES
OF ATLANTIC RICHFIELD MARCH 2.

2. COMMONS AND RAVESIES COVERED MUCH SAME GROUND AS
REPORTED IN REFTTEL, STRESSING IMPORTANCE OF PRODUCTION-
SHARING CONTRACT AREAS FOR FUTURE SUSTAINING OF INDONESIAN
OIL PRODUCTION, MAGNITUDE OF THEIR EXPLORATION/DEVELOPMENT

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COSTS IN RELATION TO SIZES OF FIELDS THEY COULD EXPECT TO

FIND AND EXPLOIT, MAGNITUDE OF THEIR SUNK OR UNRECOVERED COSTS (200-500 MILLION DOLS IN ARCO'S CASE),AND THEIR DISBELIEF AND DISMAY AT SADLI'S AND OTHERS' INDIFFERENCE TO THEIR ARGUMENTS ABOUT EFFECT OF GOI SQUEEZE PLAY ON WHOLE INDONESIAN INVESTMENT CLIMATE. COMMONS/RAVESIES UNDERSTOOD THAT IBNU AND WIJARSO WERE PLANNING TO SEE SUHARTO ON/ABOUT MARCH 2, PRESUMABLY ARGUING IN SOME WAY ON THEIR BEHALF. TWO OIL COMPANY REPRESENTATIVES

CONCLUDED THAT ONLY APPROACH BY AMBASSADOR TO SUHARTO STOOD ANY CHANCE OF TURNING GOI AWAY FROM ITS PRESENT SELF-DESTRUCTIVE COURSE. TIME HAD PASSED FOR AN EFFECTIVE THIRD-PARTY ROLE, THEY THOUGHT (ALTHOUGH THEY WERE CALLING ON BERNIE BELL LATER).

3. IN DEPARTURE FROM WHAT HE SAID IN JAKARTA, COMMONS STATED THAT IF 2 DOLS AND 50 CENTS "SHIFT" WERE EFFECTED BY GOI UNILATERAL DECREE, NATOMAS WOULD CEASE ALL EXPLORATION BUT WOULD STILL FINISH OFF ITS PLANNED DEVELOPMENT WORK AT EIGHT PLATFORMS BEFORE "WALKING OUT". COMMONS ALSO SAID HE HAD INDICATED TO PERTAMINA NEGOTIATORS THAT NATOMAS POSITION HAD SOME "GIVE". COMPANY WOULD BE WILLING TO STRETCH OUT ITS COST RECOVERY PERIOD BY ACCEPTING A 35-PERCENT MAXIMUM ANNUAL RETURN (VICE PRESENT 40-PERCENT), BUT THIS WOULD ALSO MEAN STRETCH-OUT OF DEVELOPMENT WORK. RAVESIES WAS NOT SO FORTHCOMING FOR ARCO. GOI SHOULD ALSO BE WILLING GIVE SOME KIND OF GUARANTEE (FOR WHATEVER IT'S WORTH) THAT THIS SQUEEZE PLAY WILL NOT BE REPEATED.

4. EDMOND NOTED THAT YOU HAD BEEN FOLLOWING BOTH CALTEX AND PRODUCTION-SHARING NEGOTIATIONS VERY CLOSELY AND HAD MADE KNOWN YOUR CONCERNS ABOUT COURSE THEY WERE TAKING TO SENIOR GOI OFFICIALS. WHETHER OR NOT TO APPROACH SUHARTO ON THIS MATTER WAS INSTANCE IN WHICH DEPARTMENT HAD TO RELY ON AMBASSADOR'S JUDGMENT.

5. IF IN WAKE REPORTED IBNU/WIJARSO MEETING WITH SUHARTO, YOU BELIEVE ADDITIONAL COMMENTS BY YOURSELF TO PRESIDENT MIGHT MOVE GOI DRIVE FOR HIGHER OIL "TAKE"
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INTO MORE CONSTRUCTIVE CHANNELS, YOU ARE AUTHORIZED TO TRY TO EFFECT SUCH A MEETING. IF YOU DO SO, OUR BELIEF IS THAT YOU SHOULD STRESS USG CONCERN OVER DAMAGE TO INDONESIAN INVESTMENT CLIMATE THAT UNILATERAL ACTION WOULD CAUSE. AS FRIEND OF INDONESIA, U.S. IS AWARE OF ITS ENORMOUS DEVELOPMENT NEEDS AND OF VITAL ROLE WHICH PRIVATE FOREIGN INVESTMENT MUST PLAY IN MEETING THESE NEEDS. U.S. WOULD BE DISMAYED TO SEE DESTRUCTION OF

GENERALLY FAVORABLE INDONESIA INVESTMENT CLIMATE WHICH TOOK SO LONG TO CREATE. ISSUE OF REASONABLENESS OF OIL COMPANY PROFITS IS HIGHLY COMPLEX MATTER, PARTICULARLY IN LIGHT OF APPARENTLY HIGHER RISKS AND SUBSTANTIAL EXPLORATION DEVELOPMENT COSTS PER BARREL OF OIL INVOLVED IN EXPLOITATION OF INDONESIA OIL FIELDS. USG HOPES

THEREFORE THAT GOI WOULD NOT TAKE PRECIPITOUS ACTION AND WOULD SEE IT IN ITS INTEREST TO CONTINUE DISCUSSIONS WITH CALTEX AND THE PRODUCTION-SHARING COMPANIES SO THAT MUTUALLY ACCEPTABLE AGREEMENTS ARE ARRIVED AT.

6. WE NOTE FROM JAKARTA 2857 (JUST RECEIVED) THAT BOTH SUHARTO AND WIDJOJO AMONG OTHERS, HAVE AILMENTS AT PRESENT WHICH MAY LIMIT THEIR AVAILABILITY. IF IN LIGHT ABOVE YOU FEEL APPROACH TO OTHER OFFICIALS ALONG ABOVE LINES WOULD BE PRODUCTIVE, YOU ARE, OF COURSE, AUTHORIZED TO DO SO ALTHOUGH WE BELIEVE ISSUE IS OF SUFFICIENT IMPORTANCE TO WARRANT SUHARTO'S BEING DIRECTLY ADVISED OF OUR CONCERN OVER POSSIBLE IMPLICATIONS. KISSINGER

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